

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

In re: :
DIGS NYC LLC, et al., : Docket #14cv0538
Plaintiffs, :
- against - :
G.M. MADONNA & CO., LLC, : New York, New York
May 14, 2014
Defendant. :

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PROCEEDINGS BEFORE
THE HONORABLE PAUL A. CROTTY,
UNITED STATES DISTRICT COURT JUDGE

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None

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None

THE CLERK: Your Honor, this is the matter of Digs NYC LLC, et al. v. G.M. Madonna & Co., LLC, et al., Docket Number 14cv0538. Counsel for the plaintiff, please state your appearance for the record.

MR. BRADFORD CONOVER: Good afternoon, Your Honor, my name is Bradford Conover, Conover Law Offices, and with me today is Molly Smithsimon of my office.

HONORABLE PAUL. A. CROTTY (THE COURT): All right. Good afternoon.

THE CLERK: For defendant.

MR. CHRISTOPHER PLATT: For the defendant, I'm Christopher Platt from Finkelstein Platt, LLP, and with me is Robert Finkelstein also.

THE COURT: Mr. Platt and Mr. Finkelstein. All right. Mr. Conover, do you want to go first?

MR. CONOVER: Yes, thank you, Your Honor. Your Honor, as you know there was -- prior counsel brought in for a preliminary injunction back in March.

THE COURT: Yes.

MR. CONOVER: It was a hearing before Your Honor.

THE COURT: Correct.

MR. CONOVER: And we sent a letter to Your Honor for a pre-motion conference today concerning three issues. First, revisiting the preliminary injunction motion,

second, addressing the issue of the counterclaims and the potential motion to dismiss, and the third, which was raised by Your Honor, a possibility of mediation.

THE COURT: Yes.

MR. CONOVER: On the first issue, the injunction, you will see from comparing the Exhibits, I believe it's Exhibit B with my letter with Exhibit 3 to Mr. Platt's letter, that as soon as we filed this pre-motion letter Ms. Madonna removed the Diggs infringements from her site map.

There is a site map for digsmoda.com with contains what they call URL addresses and she had 213 URL addresses, 5 of which had my client's trademarks names -- Digs, Digs Couture, etc.

I checked the screen on, I believe it was April 8th and they were still all up there. We filed the letter on that Friday, April 11th, and by the next Tuesday, April 15th, she had removed those five. So she's behaved exactly the way she behaved back in March. As soon as she unnoticed that she was being --

THE COURT: I thought you wanted them removed.

MR. CONOVER: We do, but I'm just telling you --

THE COURT: Well, if they're removed what's the problem?

MR. CONOVER: Well, Your Honor, the case law's

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2 quite clear, particularly in trademarks where there is
3 recurrent behavior. Removal of those violations does not
4 make the issue moot. But if the history of the particular
5 party suggests that that may occur again, the Court is
6 empowered to enter an injunction. That is our concern,
7 Your Honor. That's the first issue.

8 The second issue is we contacted register.com.
9 They are the entity that registers a domain name. It
10 appears that the domain name digsmoda.com shares the exact
11 same address with Madonna.com. So what she has done is she
12 has taken the digsmoda.com IP address, which is a series of
13 numbers, and she used that same address for her new company
14 Madonna.com.

15 So when you go to the -- if you to go to the
16 computer today and you were to do a Google search for Digs,
17 our client's trademark, Ms. Madonna's website would come up
18 first. That's a clear violation. That conduct is in --
19 violated and infringing on a trademark and that can be
20 easily corrected. Ms. Madonna represented to Your Honor at
21 the last hearing that she wants no association with Digs.
22 Fine. All you need to do is change your IP address.
23 That's the second issue.

24 The third issue --

25 THE COURT: If she were to do that what would

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2 happen then?

3 MR. CONOVER: Then when you put in Digs, Digs
4 would come up, the company Digs would come up.

5 THE COURT: No, no, what would happen in -- I
6 understand that. But what would happen in terms of what
7 relief you're seeking?

8 MR. CONOVER: If she were to do that, that would
9 solve the relief we're seeking. We wouldn't need an
10 injunction because she would take steps to correct the
11 infringements herself.

12 The third issue which was addressed in the third
13 meeting was in the transfer agreement Ms. Madonna was
14 allowed to essentially redirect traffic that went to
15 digsmoda.com to her new company. That's the only thing she
16 was allowed to continue to do.

17 She's taken the business and -- she changed the
18 business from Digs to Digs Moda and is listing it on Yelp.
19 And then she's saying the Yelp -- Digs Moda has been
20 renovated or changed is now Madonna. She has no right to
21 do that under the transfer agreement. They have protested
22 saying, well, we can't control Yelp. As a matter of fact,
23 we think she can. She can ask them to delete it, contact
24 the legal department. We're happy to write joint letter
25 if, you know, my read of the transcript is everybody

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2 agrees. She doesn't want to be associated with Digs so
3 let's solve the problem and disassociate Madonna from Digs
4 with the exception of what she's allowed to do is that --
5 and that's redirect traffic.

6 So there are three violations, one of which was
7 cured just prior the -- just after pre-motion letter was
8 filed. That's the injunction, Your Honor.

9 On the motion to dismiss, as you may understand,
10 this was a joint venture in a sense. That my clients and
11 Ms. Madonna got together. My clients had a store that sold
12 women's clothing that had been operating for a number of
13 years. Madonna had left another company and wanted to join
14 with them and operate a business and start one downtown.

15 They did that, they had an operating agreement.
16 Things didn't work out so they essentially went into a
17 divorce and entered into what they called the transfer
18 agreement. And in the transfer agreement, the intent of
19 the transfer agreement was to allow Ms. Madonna continue to
20 run the store downtown under a new name, Madonna & Co. and
21 my clients would continue with their business, Digs Uptown,
22 and there would be a complete separation.

23 Now one would think there would be an exchange of
24 general releases and that's what my client thought
25 happened. There was an exchange of general releases and we

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believe that's what happened.

When you look at the actual release, the last one that was actually signed, I will concede, Your Honor, it appears to be somewhat a limited. It is not the general release that my clients thought they had gotten. But defendants --

THE COURT: Excuse me. They were represented by counsel.

MR. CONOVER: Yes, they were. But -- so that brings up another issue. It's our position that the intent was of the transfer agreement was to supersede the operating agreement and release all prior claims. We think that's the intent and that's how that agreement should be interpreted.

But if the Court believes, as argued by Mr. Platt, that it was only a limited release and that was not the intent, then the operating agreement is still alive and well, and you have to look to the operating agreement with respect to Ms. Madonna's counterclaims.

The operating agreement says very clearly that all disputes must be arbitrated. There's a very clear arbitration even related to fraud. So the first three counterclaims under Section 9 of the U.S. Code must be arbitrated. They have nothing to do with the transfer agreement. The

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transfer agreement, we are alleging that there are certain trademark violations. Ms. Madonna is alleging counterclaims relate to the trademark agreement --

THE COURT: Mr. Conover, aren't you kind of arguing against yourself there?

MR. CONOVER: In what sense, Your Honor?

THE COURT: In the sense that you say that, read properly, the general releases superseded the operating agreement. Now you're saying that if they don't then the operating agreement is still in effect and that's --

MR. CONOVER: Well, what I'm saying, Your Honor, just to clarify, what I'm saying is it was my client's belief that they received a general release. Mr. Platt pointed out in his letter that it was actually a limited release --

THE COURT: What -- are you conceding that?

MR. CONOVER: For purposes of argument I'm saying yes, that it appears to be a limited release. It was, you know, we release everything from the beginning of the world to the end, and then at the end it was added arising from Exhibit 1. So I looked at the case law and Mr. Platt has an argument. You may be -- he may be right but what I'm saying is you can't have it both ways.

Either there was a superseding agreement and a

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release or if there isn't, then the operating agreement controls, and there's a very clear arbitration provision. So that applies to the first three counterclaims. So --

THE COURT: All right. And you want to move not to dismiss them but to --

MR. CONOVER: Stay.

THE COURT: -- stay them pending arbitration.

MR. CONOVER: Right. And there's no grounds to, based on my review of the law, Your Honor, there's no grounds to stay the court proceedings. You know, Your Honor has discretion, if you refer part of a case of arbitration, to stay the whole thing. That's only when the claims are related and the arbitration decision will somehow affect these claims.

In this case, the counterclaims, the first three counterclaims, concern the operating agreement. She's basically saying I was fraudulently induced to loan this money to the company --

THE COURT: And what's the third element of relief you want?

MR. CONOVER: Well, the third element, Your Honor, which I think would solve all of these issues --

THE COURT: Is the mediation.

MR. CONOVER: -- is mediation, yeah.

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THE COURT: Okay. All right. Mr. Platt and Mr. Finkelstein?

MR. PLATT: Your Honor, first of all, I have to -
- I think there's more things being discussed today then
were addressed in the letter --

THE COURT: That's all right.

MR. PLATT: -- and I will -- I'll address the
last item first, this issue regarding the releases, the
nature of the extent of the releases, and -- and --

THE COURT: Why don't address mediation first
because that's the last item.

MR. PLATT: I think mediation is actually, at
this point, I think with respect to the issue that was just
raised regarding the releases and the nature of the
releases and the plaintiff's desire to arbitrated this, I
think this is a premature to mediate. I don't think that
that -- I think that at the very least --

THE COURT: No, let's focus on mediation where
you take the litigation and the arbitration and put it
aside and say we're two small businesses. We want to
separate. We want to go -- we're going to go our own ways
because we can't get along. What's the best way of
achieving that. There's a business way of achieving that
which is far superior to the litigation mode we're adopting

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So I want to talk about why do you object to mediation. Now, I understand that both sides have to want to mediate if it's going to be successful at all. And you can't be looking for victory; you can be looking for a solution to get you out of this quagmire that you're in.

Now, you're both good lawyers. You know, your clients have a dispute. The way to end this is not through litigation but through mediation. So what's your objection to mediation?

MR. PLATT: Your Honor, I agree with you. I like mediation. I think it's a wonderful way to resolve disputes but I also do believe that there has to be a good-faith desire to actually resolve a dispute.

THE COURT: I agree with that too.

MR. PLATT: I believe --

THE COURT: But your client says she wants to be free of this -- the prior relationship and the plaintiffs, they want to be free of the prior relationship.

MR. PLATT: Your Honor, I don't believe that's the case. And I think the course of conduct here, with these preliminary injunctions or request for preliminary injunction, and again, what they're asking for, again relating to this, it's been almost quite bizarre in the

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2 sense they come to court, they don't make a phone call to
3 the defendants or to counsel, they continually come to
4 court and they argue and raise issues that are irrelevant
5 or non-infringements.

6 There's, for example, today. They're raising the
7 issue of the Yelp page. It's a third-party website that
8 they are saying, again, the request that they asked the
9 Court was they said that they would be happy if the
10 defendants would write a joint letter with them to Yelp.
11 Well, the defendants have always been ready, willing and
12 able to do so. And in fact, attached to my letter dated
13 the same day as I think we left the last hearing, was a
14 letter from Yelp to my client which copied her letter
15 begging them, basically, to take this down.

16 There's no bad faith on the side of the defendants
17 here with respect to wanting to disassociate themselves.
18 The fact that we --

19 THE COURT: Nor did -- I didn't suggest that.

20 MR. PLATT: -- don't get a phone call --

21 THE COURT: I didn't suggest that, did I?

22 MR. PLATT: No, Your Honor, but what I'm saying
23 is that I think the actual bad faith is on the side of the
24 plaintiffs who do want to make the defendants continually
25 spin wheels. I don't believe that we're in a position that

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we would reach resolution in mediation. That's the problem.

Defendants retained new counsel, they wrote this letter. We never -- I'm sorry -- plaintiffs retained new counsel. We never got a phone call regarding these issues, regarding the preliminary injunction issue.

The first issue they raised, that digsmoda.com, the website, the site map, that was an abandoned site map that wasn't even being searched by search engines. It had no relevance. The second part of that issue that they raised, quote, the redirect, the redirect is actually the membership transfer agreement, which is extremely thorough, was part of the consideration for the transfer.

And sort of -- I don't really quite understand the argument because on the one hand they argue that the redirect was not allowed. But then secondly they said the only thing that was granted was a redirect of the digsmoda.com.

So I really, in some levels, don't even know what they're asking for when they've been making these applications to the Court relating to the actual marks and the alleged infringements.

So based upon that my client believes and I believe, at least from the course of conduct, that there

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2 isn't really a good-faith effort on the side of the
3 plaintiffs to resolve this.

4 THE COURT: So what would you --

5 MR. PLATT: I wish there were.

6 THE COURT: Okay. So what would you recommend
7 that I do?

8 MR. PLATT: I think we should move forward with -
9 - if they want to make this motion to dismiss that should
10 move forward, or they should reply and we can -- I think we
11 should start talking. If in talking with counsel I believe
12 that there was actually a good-faith effort to resolve
13 this, I think mediation would be -- would make sense. This
14 is the first time that I've even been able to speak or even
15 hear plaintiff's counsel.

16 THE COURT: Well, the Rules in the Second
17 Circuit, we have these pre-motion conferences and they have
18 been mandatory pre-motion conferences, but I can't stop the
19 parties from making whatever motions are allowable under
20 the Rules.

21 So if Mr. Conover wants to move for
22 reconsideration of the decision on the preliminary
23 injunction, I guess he's free to do that. I don't think
24 it's going to prevail, Mr. Conover, but you're free to make
25 the motion. Same with the motion to dismiss. You can make

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2 a motion to dismiss the counterclaims. When would you do
3 that?

4 MR. CONOVER: We could file it within 30 days,
5 Your Honor.

6 THE COURT: Okay. Now, and Mr. Platt, how much
7 time do you need, let's say -- 30 days from today is --
8 today in the 14th.

9 MR. PLATT: Two weeks?

10 THE COURT: Yeah, you do it by June the 13th, Mr.
11 Conover, and two weeks from that would be the 27th of June.
12 And then any reply would be by the 7th.

13 But I wish you'd take my advice and take me to
14 heart that, you know, if you want to separate that the way
15 you should separate -- you know how to separate. And if
16 you need help with mediation that's what you should seek.
17 Litigation is not the answer here.

18 Also, the other thing that you have to do, is
19 submit a civil case management plan. And I was reading my
20 -- the transcript of the March preliminary injunction
21 hearing and I asked for an answer which G.M. Madonna
22 provided. And I also asked for a civil case management
23 plan so you ought to sit down and do the civil case
24 management plan.

25 I'm not going to stay discovery pending any of

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these matters that ought to be discovery because I don't think that the -- the likelihood of granting a preliminary injunction based on what the record is in Mr. Conover's letter of April 11th is very, very slim indeed.

The motions to dismiss part of the counterclaims, I've reached no tentative conclusions. I just don't know enough to give you a sense of where I am on that.

I do know this: The way out of this problem for all sides is mediation. So the dates to, just to recapitulate, Mr. Conover, you make your motions, all of them, by June 13. Mr. Pratt, you're going to respond by -- Platt, I should say -- you respond by the 27th. And the reply will be by July 7th. If you have any problems in the meantime, call, and we'll set up a conference.

Thank you very much.

MR. PLATT: Thank you, Your Honor.

MR. CONOVER: Thank you, Your Honor.

(Whereupon the matter is adjourned.)

C E R T I F I C A T E

I, Carole Ludwig, certify that the foregoing transcript of proceedings in the United States District Court, Southern District of New York, Digs NYC LLC, et al. v. G.M. Madonna & Co., LLC, et al., Docket No. 14cv0538, was prepared using digital electronic transcription equipment and is a true and accurate record of the proceedings.

Signature_____

Date: June 9, 2014